



News release

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Europe's economic crisis has left real estate investment and development in limbo – little relief expected in 2012: Emerging Trends Real Estate® Europe

An economic crisis has left the European real estate industry in limbo, with preferred markets chosen more on their potential as safe havens than high-growth hubs, and with highly specialised non-core investments gaining attention as alternatives to traditional property types, according to *Emerging Trends in Real Estate® Europe 2012*, the annual industry forecast published by PwC and the Urban Land Institute (ULI).

The report says that the prospects for any turnaround this year hinge on how recent regulatory measures will affect banks' willingness to make commercial loans, and whether another financial industry collapse caused by sovereign debt issues ultimately triggers a widespread release of assets by banks to investors.

2012 marks the beginning of an era that will be defined by more negatives than positives in its early years, says *Emerging Trends*, which includes interviews with and surveys of more than 600 leading commercial property professionals across Europe. It predicts that this year, property financing will become a major casualty of the measures banks take to tackle regulatory and macro-economic pressures; deleveraging will not free up capital for fresh property lending; debt will become more short-term and expensive; and the need to find alternative sources of funding will become imperative.

Joe Montgomery, chief executive of ULI Europe, said:

“The profound instability is affecting the providers of equity and debt. We are operating in an environment that is very difficult to model. The uncertainty over the level of banks' exposure to sovereign debt default, coupled with uncertainty over the regulatory changes introduced as a result, has caused significant elements of the capital markets to be reduced to a state of near paralysis.”



John Forbes, real estate partner at PwC and author of the report, said:

“Debt will be the main story of 2012. There is general pessimism regarding the availability of debt this year, and significantly lenders are the gloomiest of all.

“A mere 6% of lenders believe that debt will be as available as it was in 2011, with 42% believing that it will be moderately less available and 52% believing that it will be substantially less. This will be a huge challenge for many, but will create opportunities for others, in particular equity investors less reliant on debt, those who are able to take advantage of the opportunities from bank deleveraging and new debt providers entering the market.

“The good news is that the view of respondents regarding the availability of equity is much more positive. Most promising is the response from institutional investors: 65% believe that equity will be moderately more available, with a further 10% believing that equity would be substantially more available.”

Emerging Trends says that 2012 is about finding new opportunities in both longer-term and short-term non-core investments.

Recommendations for longer-term non-core investments include:

- Solar energy parks and wind farms, identified by interviewees as a growth business;
- Gas storage facilities; and
- Healthcare, hospital and data centres, which offer appeal as a stable income stream.

Recommendations for short-term, non-core investment strategies include:

- Buildings in need of refurbishment on the edges of prime districts in major cities;
- Budget hotels, especially in London’s Waterloo, Paddington, King’s Cross or Bishopsgate areas (survey respondents recommended buying secondary office space and converting it to mainstream lodging);
- Mezzanine financing for residential developers; and
- Homes in London that could be resold to wealthy individuals from Greece and Italy seeking to own a home in a country that, while in a downturn, remains more economically stable than those two countries.

This year, the report predicts, investors will continue to eschew a strategic focus on whole countries, cities or sectors in favour of asset-led, deal-by-deal approaches. “Nowhere is considered a ‘must buy,’ today,” it says.

Values posted for European cities “could hardly be described as electric,” it notes, with over half the cities recording a lower investment score than last year, including major markets such as London, Frankfurt, Copenhagen, Madrid and Rome. The top-ranked cities in the survey tend to be either in western or northern Europe, or growing regions to the east. The top five markets are:

- Istanbul – For the second consecutive year, Istanbul is ranked first for both investment and development. Its popularity is due largely to its strong economic growth prospects and demographics (a young, growing population). Retail development in Turkey has particularly high potential, with consumer spending on the rise and an influx of major international companies. “Turkey’s appeal is based on a long-term view of the future,” says *Emerging Trends*.
- Munich – Munich ranked second in the survey. With one of the lowest unemployment rates in Germany, Munich’s economy is perceived to have fared well in the recent economic malaise. Its appeal is based on the notion of the city as a safe haven offering a deep and liquid market that is more stable than Frankfurt.



- Warsaw – Ranked third in the survey, Warsaw is viewed more favourably by outside investors than domestic ones. Investors anticipate the city’s increasing prominence as the financial centre for the Eastern European region, boosting the city’s office sector. Its retail sector is also highly favoured, as the city has attracted international retailers. Extremely low retail vacancy rates and limited supply will keep this sector strong.
- Berlin - Berlin, ranked fourth, was Europe’s most attractive market for residential investment. Its appeal, like that of Munich, is stability, and its popularity with interviewees reflects a wider search for safety in today’s market environment.
- Stockholm – Stockholm, ranked fifth, was another favourite for investors picking safe cities. The city and Sweden overall have impressed investors with a strong performance throughout the financial downturn. It is considered one of the strongest markets in Europe, due to strong public sector finances and a solid export-driven economy.

In addition to Istanbul holding firm as the top investment and development market, the report highlights other trends:

- The rise of Moscow as an investment magnet. Of the Russian-based interviewees, 82 per cent anticipate deployment of more capital into real estate this year, and 75 per cent expect profits to rise.
- The decline of London in the ratings for new investment, existing investment and development. Respondents cited concerns over the difficulty of obtaining assets, strong competition and pricing on the brink of a bubble.
- The likelihood that investment will increase in few of the 27 markets in the survey. Respondents predicted greater investment in a quarter of the cities – Berlin, Hamburg, Istanbul, London, Moscow, Munich and Stockholm – but said capital values and rents would likely hold steady rather than rise as a result of the investment activity.

Respondents from Ireland (“Irish interviewees believe their economy is through the worst”) and Turkey were the most optimistic about business confidence and profitability over the coming months. Least optimistic were respondents from the Czech Republic, France and Portugal.

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Notes for editors

About the Urban Land Institute

The Urban Land Institute (www.uli.org) is a nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Established in 1936, the Institute has nearly 30,000 members representing all aspects of land use and development disciplines.

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